# *Idaho Economic Forecast*

The following tables and text are taken from the

January 2005 *Idaho Economic Forecast*,

a publication produced by the

Division of Financial Management.

# EXECUTIVE SUMMARY

Idaho nonfarm employment returned to a solid footing in 2004, after experiencing two years of disappointing growth in the previous two years. Over this two-year period, the state added about 4,500 new jobs. To put this in perspective, in 2004 alone Idaho gained over 14,600 jobs. After 2004, Idaho nonfarm employment should grow slightly slower, averaging about 1.7% per year through 2008. This is very close to what had been anticipated in the October 2004 *Idaho Economic Forecast*. In fact, although some of the details for the sectors differ, in 2007 the difference between the current and previous forecasts is just 52 jobs. While the overall Idaho job outlook is virtually unchanged, the prospects for the state's goods-producing sector have improved. There are about 1,000 more goods-producing jobs in 2007 than in the previous forecast. It is interesting to note that while the forecast for Idaho goods-producing employment has been revised up, its national counterpart has reduced. The differences between Idaho personal income forecasts are more noticeable than the employment projections. For example, the Idaho nominal personal income forecast for 2004 is one-half billion dollars (1.3%) lower than in October 2004 and it is $622 million (1.4%) lower in 2007. Most of this decrease can be traced to the revised Idaho personal income estimates that lowered the starting point for this forecast by 1.2%. While the starting level of the Idaho personal income forecast has changed since October 2004, its rate of growth remains comparable. Specifically, Idaho nominal personal income is expected to grow 5.4% annually from 2003 to 2007, compared with 5.5% per year in the previous forecast. Even after adjusting for inflation, the forecasts for personal income are similar.

The U.S. economy is forecast to make steady progress over the next few years, but fall short of its potential. This can be seen in the output and jobs forecasts. Specifcally, real output is expected to average about 3.0% annual growth after 2004. While this is a welcome change from the lackluster growth of 2001 and 2002, it is below the estimated potential GDP growth of 3.5%. The sub-potential growth is also evident in the employment numbers. This year's projected 1.7% increase is the high-water mark for the forecast period. After this year, national nonfarm employment should expand at about 1.0% annually. While any growth is a relief from the job drought of 2001-2003, the forecasted pace of job creation will not be fast enough to absorb all the expanding labor pool. As a result, after falling initially, the U.S. civilian unemployment rate is expected to increase in the latter part of the forecast and fail to return to full employment. It should be obvious oil prices have been a major determinant of the economy's performance over the past year. These huge oil price increases may have subdued the U.S. economic expansion, but they have not stopped it. This is because the U.S. economy is less dependent on oil than in the 1970s and 1980s. One issue that moved to the front burner was the nation's swelling current account deficit. Although it had been ignored for years, this imbalance was noticed when it began to put downward pressure on the U.S. dollar. The major good point is it makes American goods and services more affordable in the global market, and this should help shrink, but not erase, the lopsided global trade picture. The relatively slow job growth should also contain inflation because forthcoming compensation gains should be modest. Indeed, the U.S. civilian unemployment rate is expected to remain above the level at which inflationary fires will be rekindled. Thus, should the economy grow faster than expected, it should be able to do so without igniting rapid inflation.

# IDAHO ECONOMIC FORECAST
# EXECUTIVE SUMMARY
# JANUARY 2005

| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **GDP (BILLIONS)** | | | | | | | | | | | |
| Current $ | 8,747 | 9,268 | 9,817 | 10,128 | 10,487 | 11,004 | 11,727 | 12,352 | 12,948 | 13,584 | 14,275 |
| *% Ch* | *5.3%* | *6.0%* | *5.9%* | *3.2%* | *3.5%* | *4.9%* | *6.6%* | *5.3%* | *4.8%* | *4.9%* | *5.1%* |
| 2000 Chain-Weighted | 9,067 | 9,470 | 9,817 | 9,891 | 10,075 | 10,381 | 10,837 | 11,187 | 11,524 | 11,884 | 12,254 |
| *% Ch* | *4.2%* | *4.4%* | *3.7%* | *0.8%* | *1.9%* | *3.0%* | *4.4%* | *3.2%* | *3.0%* | *3.1%* | *3.1%* |
| **PERSONAL INCOME - CURR $** | | | | | | | | | | | |
| Idaho (Millions) | 27,287 | 29,068 | 31,290 | 33,091 | 33,963 | 34,955 | 37,019 | 38,919 | 41,042 | 43,139 | 45,459 |
| *% Ch* | *7.6%* | *6.5%* | *7.6%* | *5.8%* | *2.6%* | *2.9%* | *5.9%* | *5.1%* | *5.5%* | *5.1%* | *5.4%* |
| Idaho Nonfarm (Millions) | 26,371 | 28,075 | 30,474 | 32,095 | 33,011 | 34,030 | 36,116 | 37,858 | 39,922 | 42,020 | 44,344 |
| *% Ch* | *7.1%* | *6.5%* | *8.5%* | *5.3%* | *2.9%* | *3.1%* | *6.1%* | *4.8%* | *5.5%* | *5.3%* | *5.5%* |
| U.S. (Billions) | 7,423 | 7,802 | 8,430 | 8,724 | 8,879 | 9,162 | 9,638 | 10,109 | 10,657 | 11,209 | 11,826 |
| *% Ch* | *7.3%* | *5.1%* | *8.0%* | *3.5%* | *1.8%* | *3.2%* | *5.2%* | *4.9%* | *5.4%* | *5.2%* | *5.5%* |
| **PERSONAL INCOME - 2000 $** | | | | | | | | | | | |
| Idaho (Millions) | 28,429 | 29,788 | 31,289 | 32,411 | 32,800 | 33,128 | 34,342 | 35,430 | 36,788 | 37,947 | 39,165 |
| *% Ch* | *6.6%* | *4.8%* | *5.0%* | *3.6%* | *1.2%* | *1.0%* | *3.7%* | *3.2%* | *3.8%* | *3.2%* | *3.2%* |
| Idaho Nonfarm (Millions) | 27,475 | 28,770 | 30,473 | 31,436 | 31,880 | 32,251 | 33,505 | 34,465 | 35,784 | 36,963 | 38,205 |
| *% Ch* | *6.1%* | *4.7%* | *5.9%* | *3.2%* | *1.4%* | *1.2%* | *3.9%* | *2.9%* | *3.8%* | *3.3%* | *3.4%* |
| U.S. (Billions) | 7,734 | 7,996 | 8,429 | 8,545 | 8,575 | 8,683 | 8,941 | 9,203 | 9,552 | 9,860 | 10,189 |
| *% Ch* | *6.4%* | *3.4%* | *5.4%* | *1.4%* | *0.3%* | *1.3%* | *3.0%* | *2.9%* | *3.8%* | *3.2%* | *3.3%* |
| **HOUSING STARTS** | | | | | | | | | | | |
| Idaho | 10,110 | 10,338 | 11,518 | 12,236 | 13,154 | 16,322 | 18,077 | 17,634 | 16,252 | 15,296 | 13,968 |
| *% Ch* | *14.1%* | *2.3%* | *11.4%* | *6.2%* | *7.5%* | *24.1%* | *10.8%* | *-2.5%* | *-7.8%* | *-5.9%* | *-8.7%* |
| U.S. (Millions) | 1.621 | 1.647 | 1.573 | 1.601 | 1.710 | 1.853 | 1.941 | 1.832 | 1.692 | 1.657 | 1.629 |
| *% Ch* | *9.9%* | *1.6%* | *-4.5%* | *1.8%* | *6.8%* | *8.3%* | *4.8%* | *-5.6%* | *-7.6%* | *-2.1%* | *-1.7%* |
| **TOTAL NONFARM EMPLOYMENT** | | | | | | | | | | | |
| Idaho | 520,477 | 538,102 | 558,580 | 568,017 | 568,006 | 572,502 | 587,124 | 596,683 | 607,474 | 618,150 | 628,093 |
| *% Ch* | *2.6%* | *3.4%* | *3.8%* | *1.7%* | *0.0%* | *0.8%* | *2.6%* | *1.6%* | *1.8%* | *1.8%* | *1.6%* |
| U.S. (Thousands) | 125,924 | 128,992 | 131,791 | 131,837 | 130,343 | 129,937 | 131,295 | 133,501 | 135,058 | 136,200 | 137,296 |
| *% Ch* | *2.6%* | *2.4%* | *2.2%* | *0.0%* | *-1.1%* | *-0.3%* | *1.0%* | *1.7%* | *1.2%* | *0.8%* | *0.8%* |
| **SELECTED INTEREST RATES** | | | | | | | | | | | |
| Federal Funds | *5.4%* | *5.0%* | *6.2%* | *3.9%* | *1.7%* | *1.1%* | *1.3%* | *2.6%* | *3.4%* | *3.5%* | *3.9%* |
| Bank Prime | *8.4%* | *8.0%* | *9.2%* | *6.9%* | *4.7%* | *4.1%* | *4.3%* | *5.6%* | *6.4%* | *6.5%* | *6.9%* |
| Existing Home Mortgage | *7.1%* | *7.3%* | *8.0%* | *7.0%* | *6.5%* | *5.7%* | *5.8%* | *6.2%* | *6.6%* | *6.8%* | *7.3%* |
| **INFLATION** | | | | | | | | | | | |
| GDP Price Deflator | *1.1%* | *1.4%* | *2.2%* | *2.4%* | *1.7%* | *1.8%* | *2.1%* | *2.0%* | *1.8%* | *1.7%* | *1.9%* |
| Personal Cons Deflator | *0.9%* | *1.7%* | *2.5%* | *2.1%* | *1.4%* | *1.9%* | *2.2%* | *1.9%* | *1.6%* | *1.9%* | *2.1%* |
| Consumer Price Index | *1.5%* | *2.2%* | *3.4%* | *2.8%* | *1.6%* | *2.3%* | *2.7%* | *2.2%* | *1.3%* | *1.7%* | *1.9%* |

**National Variables Forecast by GLOBAL INSIGHT**
**Forecast Begins the THIRD Quarter of 2004**

# IDAHO ECONOMIC FORECAST
# EXECUTIVE SUMMARY
# JANUARY 2005

| | 2004 | | | | 2005 | | | | 2006 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| **GDP (BILLIONS)** | | | | | | | | | | | | |
| Current $ | 11,473 | 11,658 | 11,804 | 11,973 | 12,128 | 12,286 | 12,427 | 12,569 | 12,721 | 12,870 | 13,027 | 13,174 |
| *% Ch* | *7.4%* | *6.6%* | *5.1%* | *5.9%* | *5.3%* | *5.3%* | *4.6%* | *4.7%* | *4.9%* | *4.8%* | *5.0%* | *4.6%* |
| 2000 Chain-Weighted | 10,698 | 10,785 | 10,883 | 10,981 | 11,060 | 11,149 | 11,230 | 11,308 | 11,391 | 11,480 | 11,571 | 11,654 |
| *% Ch* | *4.5%* | *3.3%* | *3.7%* | *3.6%* | *2.9%* | *3.3%* | *2.9%* | *2.8%* | *3.0%* | *3.1%* | *3.2%* | *2.9%* |
| **PERSONAL INCOME - CURR $** | | | | | | | | | | | | |
| Idaho (Millions) | 35,992 | 36,649 | 37,319 | 38,116 | 38,063 | 38,637 | 39,253 | 39,722 | 40,247 | 40,800 | 41,288 | 41,831 |
| *% Ch* | *4.6%* | *7.5%* | *7.5%* | *8.8%* | *-0.6%* | *6.2%* | *6.5%* | *4.9%* | *5.4%* | *5.6%* | *4.9%* | *5.4%* |
| Idaho Nonfarm (Millions) | 35,255 | 35,883 | 36,255 | 37,069 | 37,141 | 37,630 | 38,119 | 38,542 | 39,086 | 39,653 | 40,208 | 40,740 |
| *% Ch* | *8.5%* | *7.3%* | *4.2%* | *9.3%* | *0.8%* | *5.4%* | *5.3%* | *4.5%* | *5.8%* | *5.9%* | *5.7%* | *5.4%* |
| U.S. (Billions) | 9,445 | 9,583 | 9,655 | 9,869 | 9,916 | 10,049 | 10,177 | 10,296 | 10,448 | 10,590 | 10,730 | 10,858 |
| *% Ch* | *5.0%* | *6.0%* | *3.0%* | *9.2%* | *1.9%* | *5.5%* | *5.2%* | *4.8%* | *6.0%* | *5.6%* | *5.4%* | *4.9%* |
| **PERSONAL INCOME - 2000 $** | | | | | | | | | | | | |
| Idaho (Millions) | 33,681 | 34,034 | 34,561 | 35,092 | 34,857 | 35,208 | 35,674 | 35,983 | 36,318 | 36,667 | 36,925 | 37,243 |
| *% Ch* | *1.3%* | *4.3%* | *6.3%* | *6.3%* | *-2.7%* | *4.1%* | *5.4%* | *3.5%* | *3.8%* | *3.9%* | *2.9%* | *3.5%* |
| Idaho Nonfarm (Millions) | 32,992 | 33,323 | 33,576 | 34,128 | 34,012 | 34,291 | 34,643 | 34,914 | 35,270 | 35,635 | 35,959 | 36,272 |
| *% Ch* | *5.1%* | *4.1%* | *3.1%* | *6.7%* | *-1.4%* | *3.3%* | *4.2%* | *3.2%* | *4.1%* | *4.2%* | *3.7%* | *3.5%* |
| U.S. (Billions) | 8,839 | 8,900 | 8,941 | 9,086 | 9,080 | 9,157 | 9,249 | 9,327 | 9,428 | 9,517 | 9,596 | 9,667 |
| *% Ch* | *1.7%* | *2.8%* | *1.9%* | *6.6%* | *-0.3%* | *3.4%* | *4.1%* | *3.4%* | *4.4%* | *3.9%* | *3.4%* | *3.0%* |
| **HOUSING STARTS** | | | | | | | | | | | | |
| Idaho | 16,544 | 17,595 | 19,330 | 18,838 | 18,156 | 17,816 | 17,491 | 17,071 | 16,716 | 16,347 | 16,107 | 15,838 |
| *% Ch* | *-27.5%* | *27.9%* | *45.7%* | *-9.8%* | *-13.7%* | *-7.3%* | *-7.1%* | *-9.3%* | *-8.1%* | *-8.5%* | *-5.7%* | *-6.5%* |
| U.S. (Millions) | 1.943 | 1.920 | 1.968 | 1.932 | 1.890 | 1.864 | 1.814 | 1.760 | 1.727 | 1.696 | 1.683 | 1.664 |
| *% Ch* | *-16.8%* | *-4.7%* | *10.4%* | *-7.0%* | *-8.5%* | *-5.4%* | *-10.2%* | *-11.5%* | *-7.3%* | *-7.1%* | *-3.0%* | *-4.5%* |
| **TOTAL NONFARM EMPLOYMENT** | | | | | | | | | | | | |
| Idaho | 581,386 | 586,605 | 588,831 | 591,673 | 592,985 | 595,197 | 598,010 | 600,541 | 603,326 | 606,026 | 608,880 | 611,662 |
| *% Ch* | *4.2%* | *3.6%* | *1.5%* | *1.9%* | *0.9%* | *1.5%* | *1.9%* | *1.7%* | *1.9%* | *1.8%* | *1.9%* | *1.8%* |
| U.S. (Thousands) | 130,367 | 131,125 | 131,521 | 132,167 | 132,721 | 133,314 | 133,774 | 134,196 | 134,529 | 134,913 | 135,269 | 135,521 |
| *% Ch* | *1.1%* | *2.3%* | *1.2%* | *2.0%* | *1.7%* | *1.8%* | *1.4%* | *1.3%* | *1.0%* | *1.1%* | *1.1%* | *0.7%* |
| **SELECTED INTEREST RATES** | | | | | | | | | | | | |
| Federal Funds | *1.0%* | *1.0%* | *1.4%* | *1.9%* | *2.2%* | *2.5%* | *2.8%* | *3.0%* | *3.2%* | *3.4%* | *3.5%* | *3.5%* |
| Bank Prime | *4.0%* | *4.0%* | *4.4%* | *4.9%* | *5.2%* | *5.5%* | *5.8%* | *6.0%* | *6.2%* | *6.4%* | *6.5%* | *6.5%* |
| Existing Home Mortgage | *5.6%* | *5.7%* | *5.8%* | *5.9%* | *6.1%* | *6.1%* | *6.1%* | *6.3%* | *6.4%* | *6.6%* | *6.6%* | *6.7%* |
| **INFLATION** | | | | | | | | | | | | |
| GDP Price Deflator | *2.8%* | *3.2%* | *1.3%* | *2.0%* | *2.3%* | *2.0%* | *1.7%* | *1.8%* | *1.9%* | *1.6%* | *1.7%* | *1.6%* |
| Personal Cons Deflator | *3.3%* | *3.1%* | *1.1%* | *2.4%* | *2.2%* | *2.0%* | *1.1%* | *1.3%* | *1.6%* | *1.7%* | *2.0%* | *1.8%* |
| Consumer Price Index | *3.6%* | *4.7%* | *1.9%* | *3.1%* | *2.3%* | *2.0%* | *0.7%* | *1.0%* | *1.3%* | *1.5%* | *1.9%* | *1.6%* |

**National Variables Forecast by GLOBAL INSIGHT**
**Forecast Begins the THIRD Quarter of 2004**

## NATIONAL FORECAST DESCRIPTION

### The Forecast Period is the Third Quarter of 2004 through the Fourth Quarter of 2008

The U.S. economy is forecast to make steady progress over the next few years, but fall short of its potential. This can be seen in the output and jobs forecasts. Specifcally, real output is expected to average about 3.0% annual growth after 2004. While this is a welcome change from the lackluster growth of 2001 and 2002, it is below the estimated potential GDP growth of 3.5%. The sub-potential growth is also evident in the employment numbers. This year's projected 1.7% increase is the high-water mark for the forecast period. After this year, national nonfarm employment should expand at about 1.0% annually. While any growth is a relief from the job drought of 2001-2003, the forecasted pace of job creation will not be fast enough to absorb all the expanding labor pool. As a result, after falling initially, the U.S. civilian unemployment rate is expected to increase in the latter part of the forecast and fail to return to full employment.

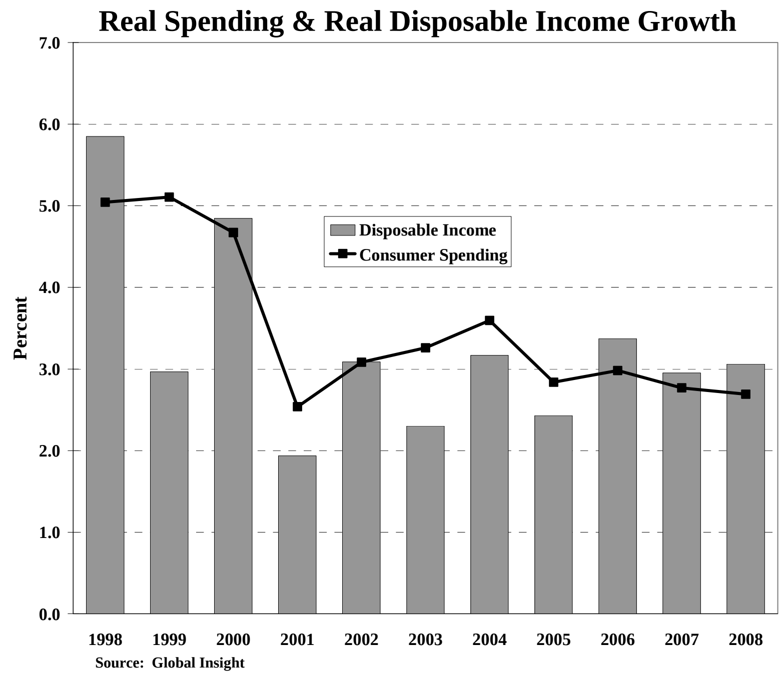
It should be obvious oil prices have been a major determinant of the economy's performance over the past year. Unfortunately, it has been harder to determine the level of oil prices. A look at Global Insight's oil price predictions illustrates this point. At the beginning of 2004, it was assumed the price of West Texas Intermediate crude would be $28 per barrel in 2004 and $26 per barrel in 2005. Several surges later, these price forecasts have been raised to $42 for 2004 and $46 for 2005—upward increases of $14 and $20 respectively.

These huge oil prices increases may have subdued the U.S. economic expansion, but they have not stopped it. The forecast for real U.S. GDP growth for 2004 has been revised downwards from 4.7% in January 2004 to 4.4% in November 2004. Likewise, real GDP growth in 2005 has been scaled back from 4.0% in the beginning of the year to 3.2% near the end of the year. What is surprising is not how much the output forecasts have been reduced, but how little. Based on historical precedent, the casual observer would conclude oil price increases of the size discussed here would send the U.S. economy into a tailspin. But they have not because the U.S. economy is less dependent on oil than in the 1970s and 1980s.

One issue that moved to the front burner was the nation's swelling current account deficit. Although it had been ignored for years, this imbalance was noticed when it began to put downward pressure on the U.S. dollar. The falling dollar has its good and bad points. The major good point is it makes American goods and services more affordable in the global market, and this should help shrink the lopsided global trade picture. Unfortunately, the dollars decline alone will not be sufficient to fix the trade imbalance. First, for the last several years many foreign economies have benefited from the strong dollar, which allowed their companies to export themselves to prosperity by selling to the U.S., but doing little to stimulate demand in their own countries. In addition, since China pegs its currency to the U.S. dollar, it has not been affected by recent exchange rate changes. Foreign companies may also be willing to absorb losses from exchange rate fluctuations in order to maintain their markets shares. These factors also help explain why inflation remains benign in spite of the falling dollar, which is usually inflationary.

The relatively slow job growth should also contain inflation because forthcoming compensation gains should be modest. Indeed, the U.S. civilian unemployment rate is expected to remain above the level at which inflationary fires will be rekindled. Thus, should the economy grow faster than expected, it should be able to do so without igniting rapid inflation.

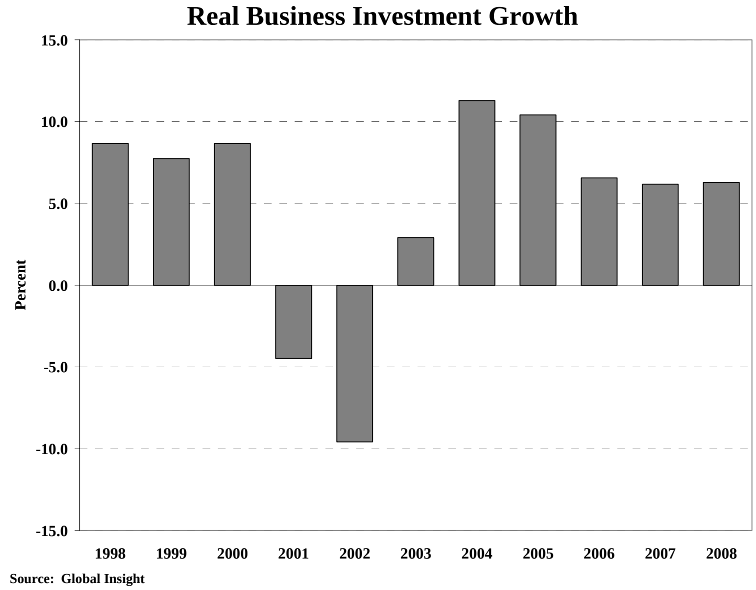
## SELECTED NATIONAL ECONOMIC INDICATORS



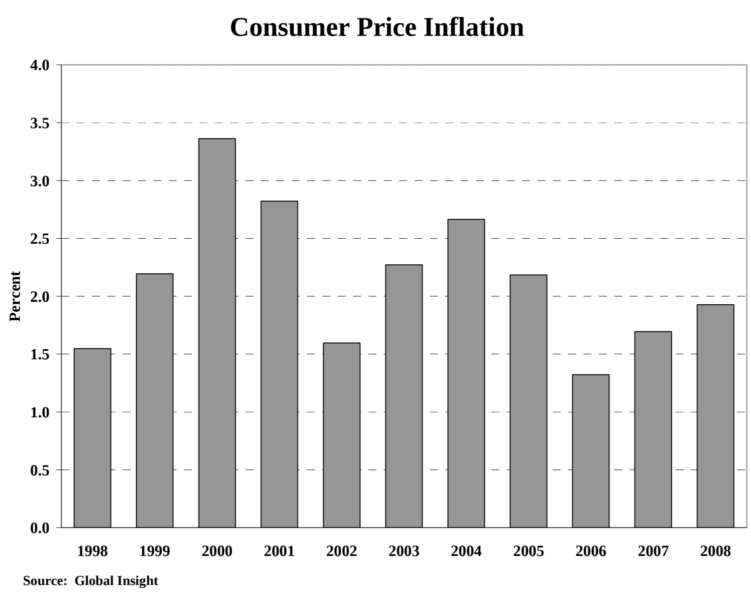

**Consumer Spending:** The economy's consumer sector is expected to transition from a leading role to a supporting role during the forecast period. This will be a notable change because consumer spending kept the U.S. economy afloat while other sectors foundered. Real consumption spending grew faster than real GDP in every year from 1998 to 2003. A close examination shows consumer spending was an important positive influence that restrained the severity of the last recession. Real consumer spending growth slowed to 2.5% in 2001, but has accelerated in each year since. Several factors account for the strong post-recession spending. They include low interest rates, the strong housing market, and temporary federal tax cuts. However, in the near term, consumer spending will need to shift to another fuel source because interest rates are expected to rise, the housing market is forecast to cool, and no major income tax cuts are anticipated. Absent these factors, consumer spending will become more dependent on the recovering job market. As a result, real spending is expected to grow more in line with real disposable income over the next few years than it has in the last few years. As the accompanying chart shows, since 1999 real consumer spending has generally grown faster than real personal income. One of the ways consumers financed this shopping spree was to curtail personal savings. The personal savings rate crossed a notable threshold in the third quarter of 2004 by falling to its lowest level since quarterly data were collected since 1947. From 1946 to 1992, the savings rate averaged 8.5% with no discernable trend. It plummeted from 1993 through 1999 before stabilizing near 2% during 2000 through 2002. After that it resumed its fall. Fluctuations in the savings rate can be explained by the wealth effect, interest rates, and credit availability. The decline in savings during the 1990s coincided with rising household net worth as stock markets boomed and home values appreciated. Households spent some of this new wealth, reducing the savings rate. The extension of credit also encouraged spending by low-income households. When the stock market collapsed in 2000-02, people were expected to save more of their incomes to rebuild depleted financial assets. Instead, declining interest rates sparked a wave of mortgage refinancing in which homeowners liquidated some of their home equity gains. In some cases, savings from lower mortgage payments provided another funding source for spending. The U.S. personal savings rate is currently at 0.4% of disposable income. The savings rate is expected to post a gradual recovery over the forecast period, but will not reach its pre-2001 level. The low savings rate is a concern because it could hamper long-term economic growth. Lower personal savings reduces the supply of funds available for capital formation. This pushes up long-term interest rates, which raises the cost of borrowing. The higher borrowing costs lower capital investment, and this limits potential long-term GDP growth. Real consumer spending is expected to increase 3.6% in 2004, 2.8% in 2005, 3.0% in 2006, 2.8% in 2007, and 2.7% in 2008. In comparison, real disposable income should rise 3.2% in 2004, 2.4% in 2005, 3.4% in 2006, 3.0% in 2007, and 3.1% in 2008.

**Business Investment:** Business investment has witnessed an interesting turnaround lately. Usually, spending on high-tech items grows faster than investment in low-tech items. But this has been reversed. Spending on high-tech items has grown slower than the investment on low-tech items.

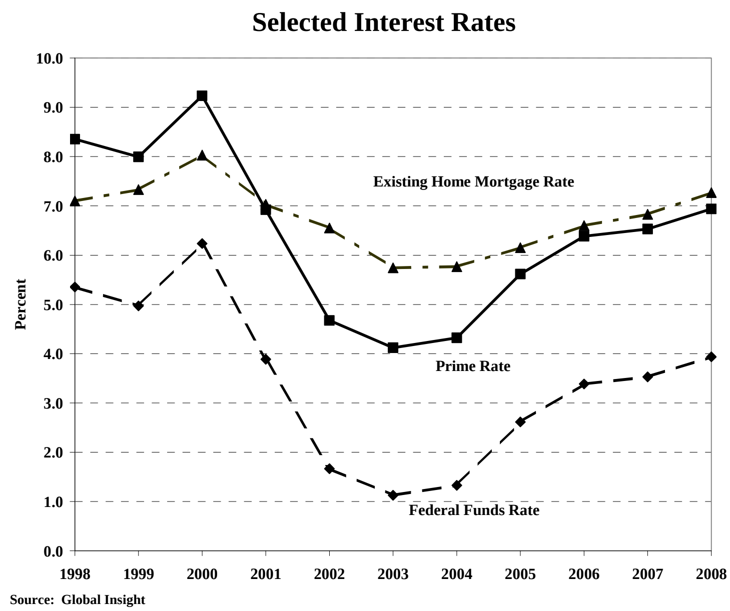
Specifically, spending on equipment and software posted double-digit annualized growth for the fifth time in six quarters during the third quarter of 2004. And for the second quarter in a row, the low-tech categories outperformed the high-tech ones. Excluding equipment and software, nominal spending jumped 27% in the third quarter. Overall, nominal spending on equipment and software grew 13.2%. It was kept down by weak spending on equipment that rose a meager 1.6%. Several explanations have been offered for the abrupt slowdown in high-tech equipment spending. One theory is high-tech recovered much earlier than other equipment categories, so its go-go years have passed. The Wall Street Journal suggested the surge in high-tech equipment spending came from companies catching-up on delayed upgrades. Now that these companies are caught up, spending is slowing. This forecast assumes the recent slowdown was merely a hiccup, and that spending should rebound beginning with the fourth quarter of 2004. Another interesting change in the equipment category is computer prices are not falling as quickly as they once did. This raises two important questions. First, why have computer price declines slowed? Second, how will this change impact productivity growth? To answer the first question, the rate of technological change appeared to move at light speed during the 1990s. However, in recent years, perhaps because the profits from innovation are now understood to be smaller than once thought, the rate of innovation has slowed. As a result, price reductions have decelerated. The short answer to the second question is productivity will slow. Over the past 50 years productivity growth averaged 2.2% per year. Over the past four years, it has averaged nearly 4% annual growth. Over the forecast period, productivity will slow to about 2.5% per year. This slowdown is partially the result of the slower investment in equipment.




**Inflation:** Inflation is expected to remain benign over the forecast period. Despite being assailed by surging oil prices and the falling dollar, overall consumer price inflation remained under 3.0% in 2004. In the fall of 2004 oil prices topped $50 per barrel, which pushed the energy commodities component of the consumer price index (CPI) to rise by over 18% in 2004. However, little of this spilled over into the overall CPI, which advanced 2.7% in 2004. While this is the highest inflation in four years, it does not come close to matching the inflation experienced during the 1970s. For example, in 1979 the energy component of CPI soared by 34% and the over CPI jumped 11%. Interestingly, the energy component of CPI grew slower in 1990 than in 2004, yet overall inflation was 2.7% in 2004 compared to 5.4% in 1990. Energy prices have less of an impact on overall inflation than in the past because the U.S. economy is more energy

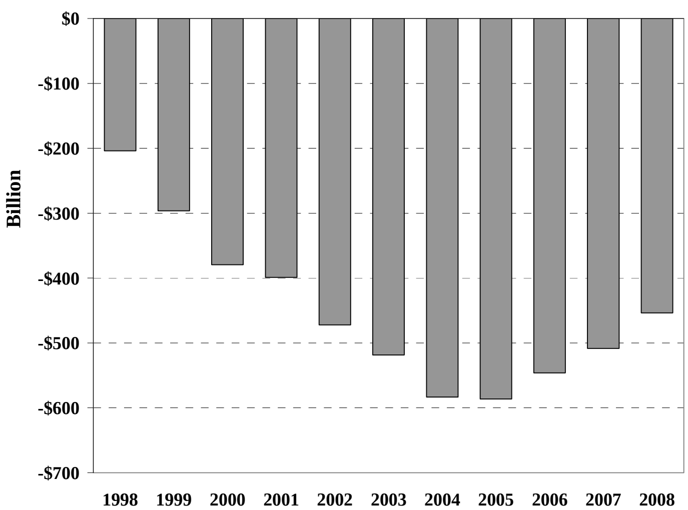


efficient then it was in the past. Part of this is the result of technological changes and some of it reflects structural changes in the economy. The U.S. economy continues to move from a goods-producing economy to a services-producing economy. The latter simply uses less energy per unit of output than the former. Another potential source of inflation is the falling dollar. As the dollar value falls, it makes imported goods relatively more expensive for Americans to purchase imported goods. So far, the dollar's fall does not seem to be boosting inflation. There are a couple of explanations why inflation remains well behaved while the dollar falls. First, for most exporting nations, the U.S. market is too important to abandon. By raising prices, they risk losing their hard-won share of the U.S. market. Instead, they have resisted raising prices and absorbed losses caused by the falling dollar in order to remain competitive in the world's most lucrative market. Second, China is a major exporter of consumer goods into the U.S. market. Chinese goods are largely insulated from changes in the dollar's value because the Chinese currency is pegged to the dollar. In essence, the exchange rate between the countries' currencies remains constant, so there is no need for Chinese companies to change their prices. Over time, oil prices and exchange rates should be less of a threat to inflation. Oil prices began moving down in the winter of 2004 and the dollar is expected to gradually decline. Under these conditions, the primary determinant of inflation is employment costs. These costs are largely dictated by labor market conditions. The anticipation of slow job growth suggests employee compensation, and thus, employment costs will rise slowly. The forecast calls for wages and salaries to advance just over 3% per year and benefit costs to increase between 4% and 5%. The major wild card in the benefits forecast is health insurance costs. According to the forecast, this important component of total employee compensation should grow slower over the forecast period. However, history has shown this component is capable of escalating quickly. Consumer price inflation is forecast to rise 2.2% in 2005, 1.3% in 2006, 1.7% in 2007, and 1.9% in 2008.




**Financial:** The Federal Reserve continues its plan to raise interest rates to a more normal level. The central bank's most recent step came on December 14, 2004, when it raised its federal funds rate by 25 basis points for the fifth time since May 2004. As a result, the bellwether federal funds rate was 2.25% at the end of 2004. The December 2004 move was the most difficult change of the string of increases to predict. This is because Federal Reserve statements made after recent increases have hinted the bank would delay further increases if it felt the economy was in danger of stalling. In addition, some bank officials have voiced concerns about the economy's fortitude and its vulnerability to high oil prices. These were also concerns before the Federal Reserve raised its short-term funds rate in November 2004. But signs the economy remained on solid footing were evident back then, and this helped convince the central bank to continue raising interest rates. Two key factors influencing this move were the increase of over 300,000 nonfarm jobs in October 2004 and falling oil prices. The Federal Reserve usually increases interest rates to cool the economy in order to keep inflation under control. However, the Federal Reserve's recent increases are hard to tie to inflation because prices have been relatively well behaved. Instead, it seems to be moving to a more normal level of interest rates. A bit of history explains the Federal Reserve's recent action. At the end of 2000, the federal funds rate was 6.5%. However, fears of the economy's health caused the central bank to lower interest rates in order to keep the economy moving forward. The federal funds rate fell to its nadir of 1.0% in June 2003 and remained at that level for about a year. This caused the real interest rate (federal funds rate less inflation) to become negative, which boosted the weak economy. The economy has grown since then and is better able to stand on its own, so the need for policy driven stimulation is unnecessary. In addition, with the federal funds rate at 1.0%, the U.S. central bank was at risk of losing one of its most important policy tools because it cannot lower rates below 0%. With the federal funds rate 2.25%, the central bank has expanded its options. At 2.25%, the federal funds rate is at a level where the real interest rate is near zero, so the Federal Reserve can stretch out its interest rate increases. The Federal Reserve will not remain neutral, but it is expected to raise the federal funds rate gradually to 4.25% by the end of 2008.  Interestingly, the Federal Reserve has done little to prop up the dollar. Theoretically, the Federal Reserve could raise rates in order to increase the attractiveness of holding dollar-denominated assets, which would boost the demand for dollars, which would raise its value versus other currencies. But the gradual interest rate increases suggest the Federal Reserve's attention will remain focused on the economy and inflation.

**Real U.S. Trade Deficit**

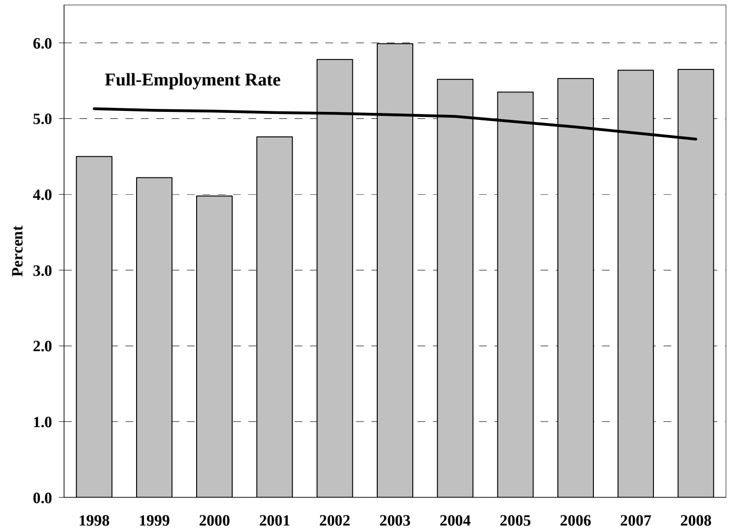



Source: Global Insight

**International:** Recently, doubts about the current strength of world economic growth have moved to center stage. In addition, record-breaking oil prices raised uncertainty about whether above–trend economic growth rates can be extended through 2005. While surging oil prices represent a temporary headwind to global economic growth, their negative impacts will be limited by the global economy's reduced oil intensity compared with the 1970s and 1980s. The reduced inflationary impact of oil prices provides central banks with more maneuvering room than in the previous oil crises. As a result, the world economy's recent setbacks are temporary and growth should remain strong enough for the current cyclical recovery to continue. North America and Asia/Pacific, which have led the way with strong rebounds since the end of the Iraq crises, should maintain their leads through the first half of 2005, and the economies of either region should continue to benefit from higher global trade volumes and improving terms of trade. Another important factor is the U.S. dollar's recent slide. The drop in the greenback should make American products less expensive relative to their foreign competitors, which, in turn, should boost U.S. exports. After dropping by 7.8% in 2004 alone, the dollar is expected to decline gradually over the forecast period, so it is 8.3% lower in 2008 compared to 2004. Eventually, this should help shrink, but not erase, the nation's enormous trade imbalance. Other factors will work to keep the U.S. trade balance lopsided. First, some trade partners who are quick to criticize the U.S. trade deficit are the very ones who have benefited the most from it. In recent years, the U.S. has carried global economic growth. Foreign countries facing lackluster demand at home have attempted to export themselves to prosperity by selling to the U.S. Second, the worldwide excess of manufacturing capacity will cause foreign competitors to think twice about raising prices that would threaten their U.S. market share. Third, China, one of the nation's largest trading partners, pegs its currency to the dollar, so anticipated declines will have little impact on its imports into the U.S. or how much it purchase from the U.S. Fourth, exporting countries benefit from a strong dollar, and are likely to intervene to keep it from going into a freefall. It is estimated U.S. real net exports was $583.3 billion in 2004, which is 12.5% higher than the previous year. It is expected to rise just slightly to $586.2 billion in 2005 and shrink in the remaining years of the forecast.

**Employment:** National nonfarm employment grew in 2004 after a three-year hiatus. From 2000 to 2003, the U.S. economy shed over 1.8 million jobs. Unfortunately, the nation's manufacturing sectoring took an even bigger hit by losing nearly 2.8 million jobs over this same period. It has been estimated another 150,000 manufacturing jobs were lost in 2004. Despite the manufacturing sector's losses, overall nonfarm employment managed to expand a modest 1.0% in 2004. This long-awaited gain results from an unusual monthly job-growth pattern. Instead of growing steadily, employment growth in 2004 has displayed a pattern that consists of a string of disappointing months followed by months of outstanding job growth. For example, after strong month-to-month gains in March, April, and May, there was unspectacular nonfarm employment growth through most of the summer. This was followed by a strong October, when over 300,00 jobs were added. November brought an additional 112,000 jobs. During the first 11 months of 2004 an average of over 185,000 jobs per month have been added to the U.S. economy. The next year promises to be even better, with a projected 1.7% increase over 2004. It should also be pointed out U.S. nonfarm employment should top its 2001 peak in 2005. The return to job expansion is especially well timed. Up until recently, overall economic growth has been policy driven. An accommodative monetary policy and a generous fiscal policy kept the economy moving ahead. Job growth has to return as an important growth engine just as policies are becoming less generous. Nonfarm employment is expected to grow slower after 2005, averaging about 1% per year. The non-manufacturing component will enjoy most of the growth over this period. Manufacturing employment is anticipated to post meager gains in 2005 and 2006, but these increases will not come close to replacing the jobs lost by this beleaguered sector since 2000. From 2005 to 2008, about 105,000 nonfarm jobs should be added per month. At that pace, the job market will not grow fast enough to keep up with the expanding labor force. This can be seen in the unemployment data. After peaking at 6% in 2003, the U.S. civilian unemployment rate improved to 5.5% in 2004 and should move down to 5.4% in 2005. However, it is expected to gradually rise thereafter, reaching 5.7% in 2008.

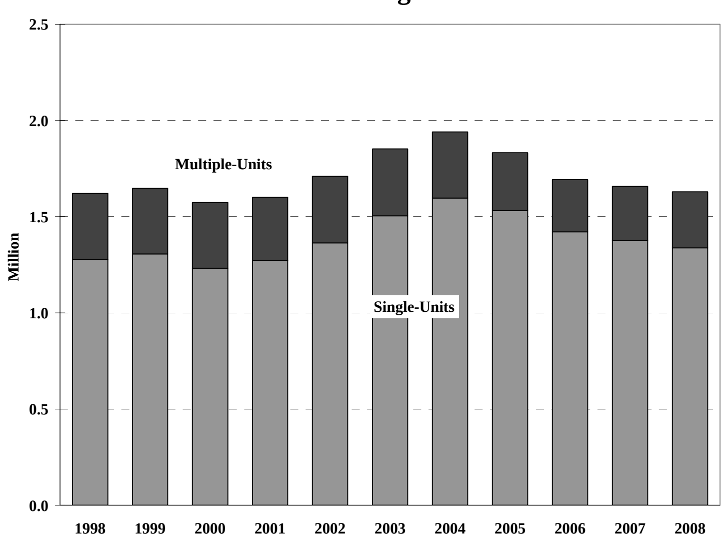
**U.S. Civilian Unemployment Rate**



Source: Global Insight

**Housing:** The nation's housing industry is expected to gradually slow after enjoying a banner year in 2004. The housing sector has been a pleasant surprise during the recovery. Economists have more than once issued warnings of the housing sector's imminent retreat only to see it set new records. This can be seen in both the housing starts and housing sales data. After falling to 1.57 million units in 2000, the number of housing starts has increased in every year thereafter. In 2003, housing starts topped 1.8 million units for the first time since 1986. This milestone will be passed in 2004, when housing starts should grow

**U.S. Housing Starts**



Source: Global Insight

comfortably above 1.9 million units—its strongest showing since 1978. The performance of housing sales has been even more impressive. Fueled by low mortgage interest rates, sales of existing homes rose from five million units in 1998 to over six million units in 2003. Given the major role low interest rates have played in bolstering the housing sector, there has been growing concern that recent interest rate hikes may cause a step decline in this sector. However, this forecast assumes a more gradual decline for this sector, partially because mortgage interest rates are expected to rise only slowly. Specifically, the rate for existing-home mortgages is expected to rise from 5.7% in 2003 to 7.3% in 2008. While the latter rate is high compared to recent years, it is much lower than the 8% rate that prevailed in 2000. There should be a minor fallout from rising rates. National housing starts are forecast to decline from 1.9 million units in 2004 to 1.6 million units in 2008. The number of existing homes sold will fall by about one million during the forecast period, from 6.6 million units to 5.6 million units.

## IDAHO FORECAST DESCRIPTION

### The Forecast Period is the Third Quarter of 2004 through the Fourth Quarter of 2008

The current Idaho economic outlook is very similar to the forecast published in October 2004. Indeed, a comparison between the two forecasts is more accurately described as minor tune-up than a major overhaul. Most of the changes are minor because changes to the national forecast upon which they are based have been relatively small. Other changes reflect revisions to historical data. In most cases these revisions were relatively minor, except for the personal income data. In general, the revisions lowered the starting point for the Idaho personal income forecast. This is discussed in detail below.

Idaho nonfarm employment returned to a solid footing in 2004, after experiencing two years of disappointing growth in the previous two years. Over this two-year period, the state added about 4,500 new jobs. To put this in perspective, in 2004 alone Idaho gained over 14,600 jobs. The state's 2004 job recovery was not unexpected. In the October 2004 *Idaho Economic Forecast*, Idaho nonfarm payrolls were expected to expand about 13,500 in 2004. The difference between these two employment forecasts for 2004 is a miniscule 0.2%.

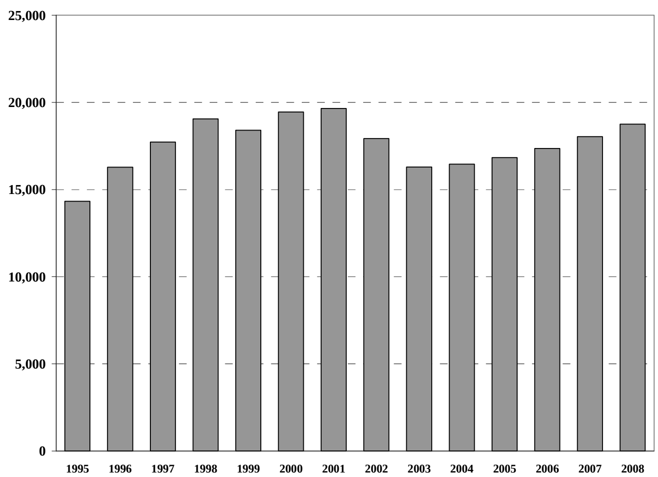
After 2004, Idaho nonfarm employment should grow slightly slower, averaging about 1.7% per year through 2008. Again, this is very close to what had been anticipated in the October 2004 *Idaho Economic Forecast*. In fact, although some of the details for the sectors differ, in 2007 the difference between the current and previous forecasts is just 52 jobs. (A comparison for 2008 was not possible because the previous forecast terminated in 2007.)

While the overall Idaho job outlook is virtually unchanged, the prospects for the state's goods-producing sector have improved. Employment is about 1.0% higher in 2005, 2006, and 2007, so there are about 1,000 more goods-producing jobs in 2007 than in the previous forecast. One of the reasons for this improvement is the forecast for Idaho manufacturing has been revised upwards. This partly reflects the revised historical data that show previous employment forecasts for this sector were too low. Specifically, it appears there were nearly 400 more goods-producing jobs in the second quarter of last year than had been forecast in October 2004. It is interesting to note that while the forecast for Idaho goods-producing employment has been revised up, its national counterpart has reduced. In 2007, the gain in Idaho goods-producing jobs is offset by a decline in forecasted nongoods-producing jobs. However, given the huge size of the nongoods-producing sector, the decline has a relatively minor percentage.

The differences between Idaho personal income forecasts are more noticeable than the employment projections. For example, the Idaho nominal personal income forecast for 2004 is one-half billion dollars (1.3%) lower than in October 2004 and it is $622 million (1.4%) lower in 2007. Most of this decrease can be traced to the revised Idaho personal income estimates that lowered the starting point for this forecast by 1.2%. While the starting level of the Idaho personal income forecast has changed since October 2004, its rate of growth remains comparable. Specifically, Idaho nominal personal income is expected to grow 5.4% annually from 2003 to 2007. This measure was forecast to advance 5.5% per year in the previous forecast. Even after adjusting for inflation, the forecasts for personal income are similar. Idaho real personal income is expected to advance 3.5% annually in the current forecast, which is the same as in the October 2004 forecast.

## SELECTED IDAHO ECONOMIC INDICATORS

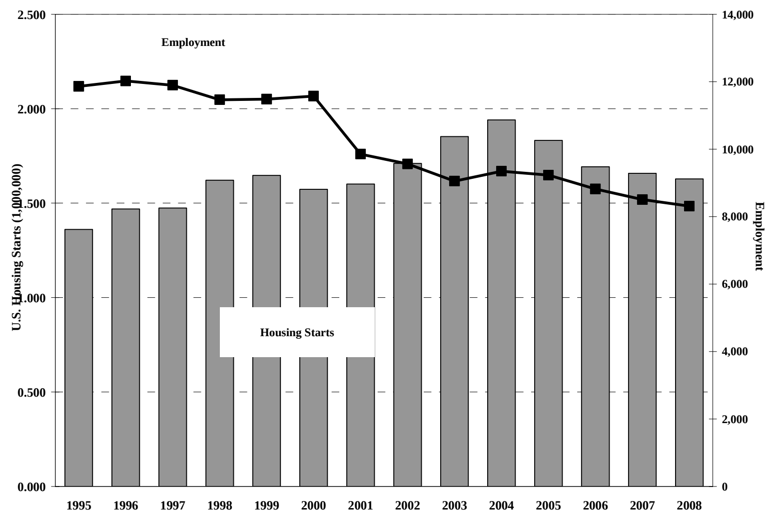
**Idaho Computer & Electronic Products Employment**




**Computer and Electronics:** Idaho's largest manufacturing sector, computers and electronics, continues to recover from one of them most severe downturns in the global electronics industry. Gem State manufacturers have navigated these industry doldrums before, but the most recent downturn has had the most negative impact on Idaho companies since the 1980s. The state's computer and electronics manufacturing sector shed jobs for the 11 quarters beginning with the second quarter of 2001. When the dust settled at the end of 2003, nearly 4,700 high-tech jobs had been lost. The companies losing employees is a who's who of the state's high-tech manufacturers. In 2001, Jabil Circuit, MicronPC.com, SCP Global Technologies, Micron MCMS, AMI, and Hewlett-Packard reduced their staffs. As a result, this sector's employment growth slowed from 5.7% in 2000 to 1.0% in 2001. The Gem State's computer and electronics sector suffered another round of layoffs in 2002, which caused employment to decline 8.8% in that year. Much of the blame for this decline can be attributed to the fallout from the bursting high-tech bubble. Fueled by the demands of the Telecommunications Act of 1996, concerns over Y2K, and the popularity of the Internet, real investment in computer equipment advanced by at least 40% each year from 1995 through 1999. The output of U.S. computer and electronic equipment producers averaged over 31% annual growth during the second half of the 1990s. Unfortunately, real business investment retreated in 2001 and 2002. The computer and electronics sector suffered another blow in the winter of 2003 when Micron laid off over 1,000 employees in Idaho. This move was part of the company's plan to reduce costs in response to the glut of memory products that caused their prices to plummet. For example, Semico Research Corporation reported the price of 256 MB DRAM (Dynamic Random Access Memory) fell from $7.40 in the first quarter of 2002 to around $5.00 in the first quarter of 2003. The company's fortunes have improved since then, however. Micron posted net income of $157 million for its fiscal year 2004, which is a noticeable improvement from the nearly $1.3 billion loss for the previous fiscal year. In addition, Micron started its current fiscal year with another profitable quarter. Micron recently announced its payroll is back to its pre-layoff level. Idaho's computer and electronics sector's employment began growing again in the first quarter of 2004. This should be the first in a series of quarterly employment gains. This positive employment outlook reflects the impact of the anticipated business investment recovery. Real spending on information processing equipment by businesses is projected to grow 15.6% in 2004, 11.3% in 2005, 11.1% in 2006, 10.2% in 2007, and 10.2% in 2008. While the growth over the next few years is not up to par with previous years, it should be enough to keep this sector's employment growing through 2008. Specifically, Idaho's computer and electronics sector employment should rise 1.0% in 2004, 2.3% in 2005, 3.1% in 2006, 3.9% in 2007, and 4.0% in 2008.

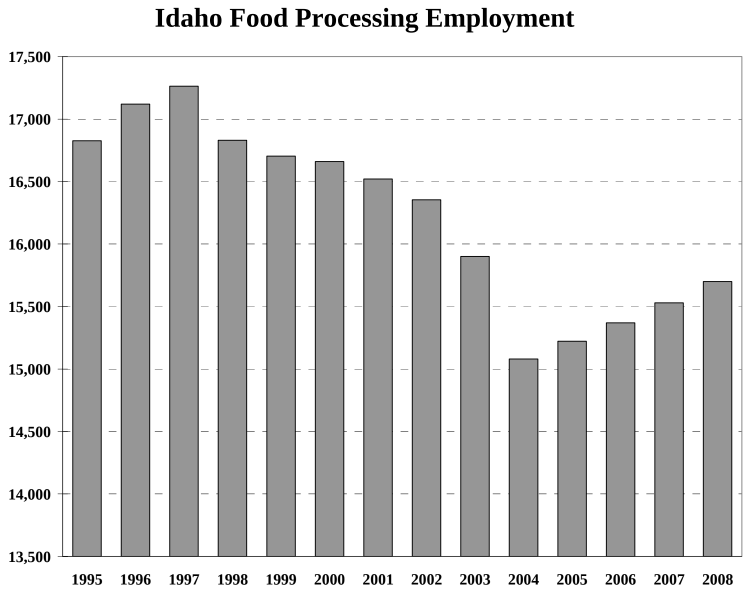
**Logging and Wood Products:** Idaho's logging and wood products sector posted a small employment gain in 2004—its first increase in four years. Unfortunately, this is not the first step in a return to prosperity, but rather it is a respite from the employment slide of recent years. After 2004, Idaho wood and lumber products employment is expected to decline once again. This sector has been shedding jobs in recent years. Employment in the lumber and wood products sector most recently peaked in 1996 and, except for two minor gains in 1999 and 2000, had been falling until 2004. During this period Idaho's lumber and wood products sector has suffered serious blows. The worst year was 2001, when employment declined a whopping 14.9%. Employment fell by another 3.0% in 2002 and 5.3% in 2003. The closing of several mills over this period caused a portion of these declines. Approximately 125 jobs were lost when Boise Cascade shuttered its Cascade, Idaho mill in 2001. About 250 jobs were lost in 2002 when the company's Emmett, Idaho mill closed. Potlatch ceased operations at its Jaype Mill near Pierce, a move that cost about 215 jobs. Louisiana-Pacific closed its Bonners Ferry mill, putting about 140 people out of work. One of the reasons these mill closures are distressing is because their job losses are permanent. Unlike cyclical layoffs, where employees are recalled when business conditions improve, workers from closed mills have no place to return to work. It should also be pointed out that these tend to be high-paying jobs and the mill is often a community's major employer. As a result, the fallout from a mill closure is felt not just inside the mill's gate, but also throughout the community. One of the most frustrating part of these setbacks is they took place when the U.S. housing industry was booming. This sector has traditionally prospered when the U.S. housing industry is healthy, but that has not been the case recently. The number of U.S. housing starts has increased in every year since 2000, and nearly 1.9 million starts are expected in 2004—its strongest showing since 1978—yet Idaho lumber and wood products employment declined until 2004. Last year's employment increase suggests the Gem State's logging and wood products sector may have finally benefited from the strong demand for housing. Another factor contributing to last year's gain is the U.S. dollars decline against the Canadian dollar. This improved the competitiveness of U.S. lumber and wood products versus Canadian forest products. Unfortunately, U.S. housing starts are expected to recede from their 2004 peak, so lumber and wood products demand is expected to ebb. As a result, this sector's fortunes will be dominated by supply factors. This does not bode well for the Gem State's lumber and wood products sector because supply factors have not been favorable to this sector for some time.  This sector depends on timber from public lands, but this supply has been dwindling. A look at the last decade's harvests shows how steep the decline has been. According to the U.S. Department of Agriculture, 739 million board feet (mbf) were harvested in Idaho in 1991, or about 41% of the state total. In comparison, federal lands in Idaho yielded just 102 mbf a decade later, which was less than 10% of the total harvest. The uncertainty of supply from federal forest is just one cloud on this sector's forecast horizon. Another concern is the current manufacturing over capacity. Strong markets in the 1990s led to heavy capital investment in this sector. As a result, it is estimated the industry can produce 20% to 25% more lumber than is being consumed in North America and Canada. In addition, unresolved fair trade issues between the U.S. and Canada are another source of uncertainty.

**Idaho Logging & Wood Products Employment and U.S. Housing Starts**



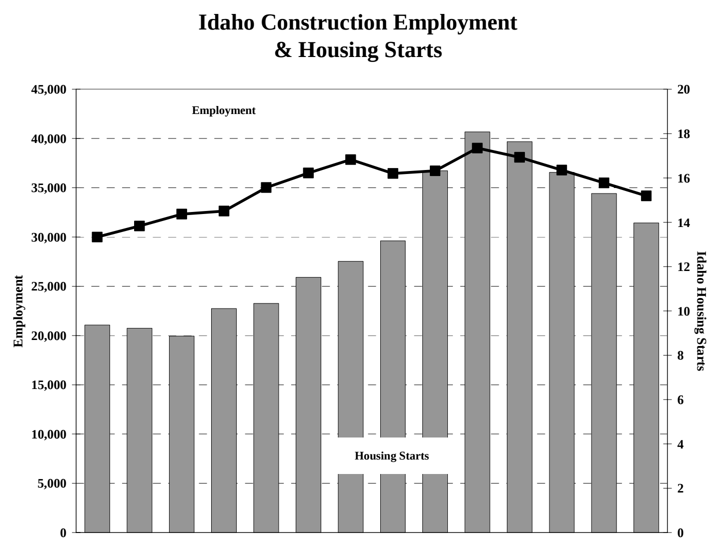
Sources: Global Insight and DFM

Idaho logging and wood products employment is expected to rise 3.2% in 2004, decline 1.2% in 2005, 4.5% in 2006, 3.5% in 2007, and 2.3% in 2008.



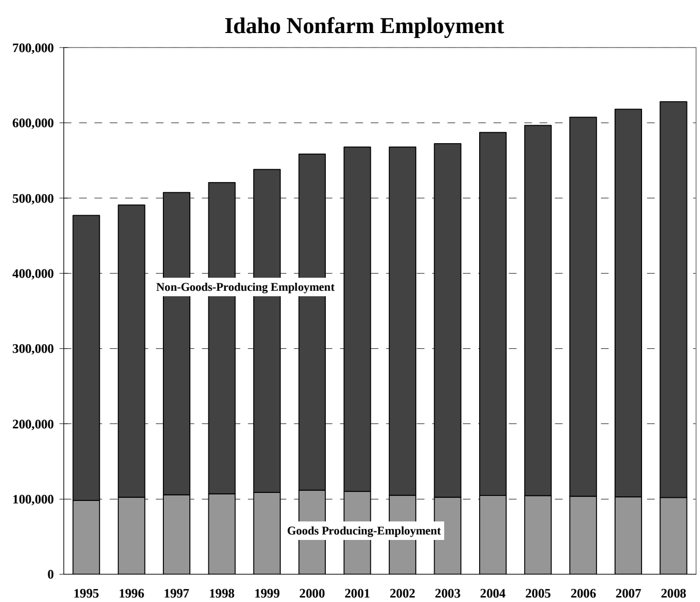

**Food Processing:** Employment in the Gem State's food processing sector is poised to expand beginning this year. This should mark the end to the long stretch of job declines that began in 1999. During this period, several iconic manufacturing facilities were shuttered. Nearly 360 jobs were lost when unfavorable business conditions caused J.R. Simplot Company to also close its Nampa meat packing plant in the fall of 2003. In addition, J.R. Simplot Company recently shuttered its Heyburn potato processing plant. The plant was built in 1960 and had run continuously since that time. However, the former processing site will be the home of new jobs. J.R. Simplot Company gifted the entire property of its Heyburn plant to the City of Burley. One company has already announced plans to move into the industrial park. The opening of the new Gossner plant will require over 100 construction workers, and the plant will create over 40 jobs when it becomes operational in October 2005. This new plant is symbolic of the growing presence of dairy industry in the state. According to the USDA, the size of Idaho's dairy herd has nearly doubled from 208,000 cows in 1994 to 404,000 cows in 2003. Over this same period, milk production more than doubled from 3.8 billion gallons to 8.8 billion gallons because of the increased output per cow. The amount of milk sold to plants also more than doubled during this time. Milk cash receipts grew from a little under one-half billion dollars in 1994 to over one billion dollars in 2003. Unfortunately, the Gem State's food processing sector's long-awaited employment gains have not offset the losses it has experienced in recent years. This sector's employment last peaked at 17,263 in 1997. After experiencing a 5.2% loss in 2004, Idaho food processing employment is projected to rise 0.9% in 2005, and about 1.0% annually in 2006, 2007, and 2008. In the last year, employment should be 15,699, which is about 1,600 below its 1997 peak.

**Construction:** Idaho's construction sector broadcast mixed signals in the middle of last year, with Idaho housing starts performing above expectations and construction employment falling below projections. Idaho housing starts are covered first. Estimates based on data that has become available since the October 2004 *Forecast* was produced show there were 376 more housing starts in the second quarter of 2004 than had been forecast in the fall. These data also show the third quarter was much stronger than had been anticipated in the October 2004 *Forecast*. At that time, Idaho housing starts had peaked in the second quarter of 2004, and would slowly

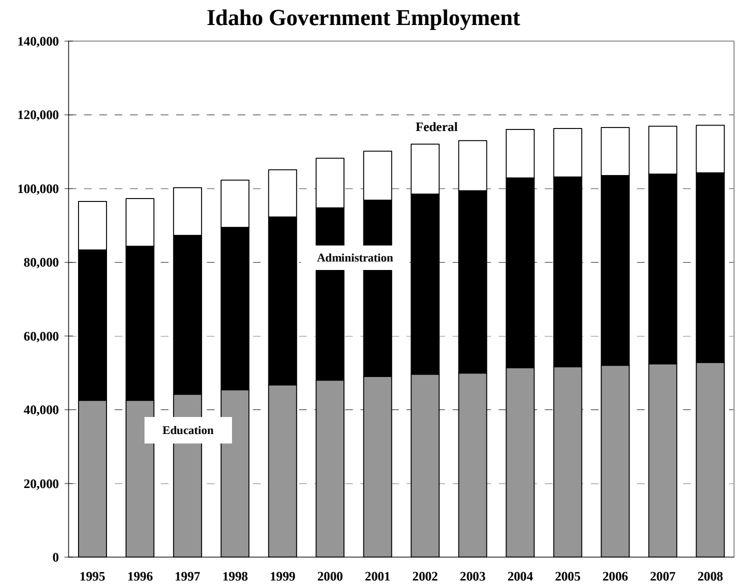


decline over the forecast period. The current data show housing starts rose steeply in the third quarter of 2004 instead of declining, with both single- and multiple-units showing significant increases. Idaho single-unit starts swelled to over 16,300 in the third quarter of 2004, which were nearly 1,800 more than had been previously forecast. There were nearly 750 more multiple-units starts than had been previously projected. Despite the higher housing starts, Idaho construction employment was actually lower than in the previous forecast. Specifically, it had been predicted in the October 2004 *Forecast* that construction employment would increase at a 11.7% annual rate to 39,980 in the second quarter of 2004. The current employment data show the number of construction jobs did increase, but to only 39,368. In the third quarter of 2004, there were 538 fewer jobs than had been previously forecasted. The new data have changed some of the details of the Idaho housing and construction projections, but their general outlooks remain unchanged from the previous forecast. For example, it was previously forecast that Idaho housing starts had peaked in the second quarter of 2004 and then would slowly decline thereafter. The current Idaho housing forecast calls for starts to peak in the third quarter of last year, then decline slowly over the forecast horizon. The reasons for the declines are the same for both forecasts. Eventually housing starts will succumb to rising mortgage rates and slower population growth. While these factors may cause the construction sector to sputter, this important engine of economic growth is not expected to collapse. Over the forecast period total Idaho housing starts are expected to fall from 18,077 in 2004 to 13,968 in 2008. Thus, while Idaho housing starts represent a decline from high levels of activity, they remain high by historical standards. Likewise, the Idaho construction employment declines from 39,031 in 2004 to 34,181 in 2008 represents a comfortable margin above its historical average.

**Nongoods-Producing Industries:** The importance of the state's nongoods-producing sector cannot be overstated. Like its national counterpart, the nongoods-producing sector accounts for the lion's share of nonfarm Idaho jobs and is expected to be the state's top job producer over the forecast period. Nongoods-producing employment accounts for eight of every ten nonfarm jobs in Idaho. The two largest nongoods employers are services and trade, representing three-fourths of nongoods-producing employment, or over 60% of Idaho total nonfarm employment. The services category is the larger of the two categories. The three largest services components are: professional and business services; education and health services; and leisure and hospitality services. The next largest group consists of financial services; transportation, warehousing, and utilities; and other services. The smallest sector is information services. The trade sector consists of its retail and wholesale components. The retail component accounted for over 73,000 jobs in 2004 and is roughly three times the size of the wholesale component. The nongoods-producing sector usually leads overall job growth, and this decade is no exception. For example, the number of nongoods jobs expanded at a 1.9% annual pace from 2000 through 2004, while Idaho total nonfarm employment grew 1.3% per year. The services component has risen faster in recent years than the trade component. While Idaho services employment has increased in every year since 2000 through 2004, trade employment expanded only in 2004. Professional and business services



should be one of strongest performers during the next few years. After experiencing a relatively anemic showing in 2003, professional and business services employment should expand an average of 3.9% per year through 2008. Education and health services employment should benefit from increased demand for health services caused by the aging population. Education and health services should grow 3.1% annually. Leisure and hospitality services employment is forecast to increase an average of 2.8% annually. Financial services employment growth is projected to average 2.4%, while transportation, warehousing, and utilities are expected to average 1.2% growth. Other services should advance 1.6% yearly. Idaho's high-quality labor force should continue to attract call centers, with the number of information services jobs growing 3.6% annually. Retail trade should average 2.1% growth over the forecast period, while wholesale trade advances at a 2.0% yearly pace.




**Government:** Idaho's state and local government sector is forecast to experience tepid employment growth over the next few years. Specifically, after a 3.5% jump in 2004, the number of jobs will advance by less than 0.5% annually in the remaining years of the forecast. This is a marked change from the 1990s when state and local employment combined averaged more than 3% growth per year. This job spurt resulted from the state's population boom in the 1990s. Idaho's population grew over 27%, or an average of about 2.5% per year from 1990 to 2000. In comparison, the U.S. economy grew about half as fast during that decade. Idaho owes a great deal of this population growth to migration. The Gem State was relatively unscathed by the 1990-91 recession, which made it an attractive oasis in an economic desert. It was particularly attractive to Californians seeking to escape the ravages of one of the Golden State's most devastating downturns. Not only was California reeling from the 1990-91 recession, but it was also suffering the impacts of defense industry consolidations and military base closures. New arrivals poured into Idaho at such a pace that in the early 1990s net migration was higher than the number of births. The state's rapid population increase strained all levels of government. This put governments in catch-up mode for a good portion of the 1990s. As a result, Idaho state and local government employment growth averaged 3.0% from 1991 to 2000. As the U.S. economy boomed in the late 1990s, net migration into the Gem State tapered off. By the end of that decade net migration dipped below 13,000—which was less than its peak of 27,168 in 1993. It is expected to decline steadily over the forecast period, dropping well below 8,000 in 2008. Idaho's total population is forecast to grow about 1.5% per year. As Idaho's population growth slows, so will its state and local government employment. As was mentioned above, beginning with 2005 state and local employment should expand by less than 0.5% per year. Virtually all the growth will take place in the education-related component of government, with the noneducation component remaining essentially flat. It should be noted that the huge increase in Idaho non-education related employment in 2004 results form a data revision, so it should be used with caution. On an annual basis, Idaho noneducation related employment should advance 4.1% in 2004, but remain flat for 2005 to 2008. In comparison, the state's education employment is projected to increase just less than 1.0% per year. The federal government component is a relatively small part of Idaho employment. It accounted for 13,620 jobs in 2003, which is much less than the nearly 100,000 state and local government jobs in Idaho. Unlike state and local employment, the number of federal jobs in Idaho is set by factors beyond its borders. Federal budget writers in Washington, D.C. mainly determine federal employment in Idaho. The return of federal deficits does not bode well for Idaho federal government employment. Federal government employment in Idaho is expected to shrink slowly over the next few years, going from 13,133 in 2004 to 12,906 in 2008.

## ALTERNATIVE FORECASTS

Global Insight has assigned a 60% probability of occurrence to its November 2004 baseline forecast of the U.S. economy. The major features of this forecast include:

- Real GDP increases 4.4% in 2004, 3.2% in 2005, 3.0% in 2006, 3.1% in 2007 and 3.1% in 2008;
- U.S. nonfarm employment grows 1.0% in 2004, 1.7% in 2005, 1.2% in 2006, and 0.8% in both 2007 and 2008;
- the U.S. civilian unemployment rate rises slightly over time;
- consumer inflation is 2.7% in 2004, 2.2% in 2005, 1.3% in 2006, and 1.7% in 2007, and 1.9% in 2008; and
- the federal unified budget deficit peaks at $413 billion in 2004 then gradually declines to $288 billion in 2008.

### OPTIMISTIC SCENARIO

The *Optimistic Scenario* has been assigned a 20% probability of occurrence. A few key assumptions distinguish the *Optimistic Scenario* from the baseline. In this *Scenario*, total factor productivity is higher than in the baseline. This helps the economy expand faster without rekindling inflation. Job growth is also stronger, while budget deficits are much smaller. This *Scenario* assumes stronger foreign growth boosts exports despite a stronger dollar. In addition to these key assumptions, oil prices are lower and construction is stronger.

These assumptions produce a rosier outlook than in the baseline. Although economic growth and job gains are stronger, inflation is actually lower than in the baseline thanks to the strong dollar and higher productivity gains. The lower inflation rate allows the Federal Reserve to be more accommodating than in the baseline. Real GDP rises 4.4% in 2004, 3.6% in 2005, 3.7% in 2006, 3.7% in 2007, and 3.5% in 2008. In the baseline, real GDP grows 4.4% in 2004, 3.2% in 2005, 3.0% in 2006, 3.1% in 2007, and 3.1% in 2008. In the *Optimistic Scenario*, nonfarm employment advances 1.1% in 2004, 1.9% in 2005, 1.5% in 2006, 1.1% in 2007, and 1.0% in 2008. The labor market's strength is also evident in the civilian unemployment rate, which declines from 5.5% to 5.2% over the forecast horizon. In contrast, the unemployment rate gradually increases over the forecast period in the baseline case. Nonfarm employment grows 1.0% in 2004, 1.7% in 2005, 1.2% in 2006, 0.8% in 2007, and 0.8% in 2008.

The higher U.S. productivity presents a mixed outlook for Idaho. Specifically, total nonfarm employment advances slightly faster than in the baseline this year and next, but grows slower than the baseline in 2007 and 2008. The cumulative result is Idaho nonfarm employment in the *Optimistic Scenario* is slightly lower But this is not the case for all Idaho employment sectors. As the table shows, Idaho goods-producing employment actually remains stable in the *Optimistic Scenario*. It declines steadily in the *Baseline Scenario*. The nongoods-producing sector is not as well off. Its employment does grow over the forecast period, but it lags its baseline counterpart. The largest differences between the *Optimistic* and *Baseline* scenarios lie with Idaho personal income. Both nominal and real personal incomes grow slower over the forecast period than in the baseline. This occurs because the higher productivity dampens unit labor cost, which lowers Idaho wage growth. The lower wage growth has a cascading effect on several components of Idaho personal income.

# IDAHO ECONOMIC FORECAST
# BASELINE AND ALTERNATIVE FORECASTS
# JANUARY 2005

| | BASELINE | | | | OPTIMISTIC | | | | PESSIMISTIC | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2005 | 2006 | 2007 | 2008 | 2005 | 2006 | 2007 | 2008 | 2005 | 2006 | 2007 | 2008 |
| **GDP (BILLIONS)** | | | | | | | | | | | | |
| Current $ | 12,352 | 12,948 | 13,584 | 14,275 | 12,371 | 12,998 | 13,667 | 14,382 | 12,326 | 12,900 | 13,605 | 14,380 |
| *% Ch* | *5.3%* | *4.8%* | *4.9%* | *5.1%* | *5.5%* | *5.1%* | *5.1%* | *5.2%* | *5.1%* | *4.7%* | *5.5%* | *5.7%* |
| 2000 Chain-Weighted | 11,187 | 11,524 | 11,884 | 12,254 | 11,231 | 11,646 | 12,074 | 12,499 | 11,146 | 11,378 | 11,679 | 11,975 |
| *% Ch* | *3.2%* | *3.0%* | *3.1%* | *3.1%* | *3.6%* | *3.7%* | *3.7%* | *3.5%* | *2.9%* | *2.1%* | *2.6%* | *2.5%* |
| **PERSONAL INCOME - CURR $** | | | | | | | | | | | | |
| Idaho (Millions) | 38,919 | 41,042 | 43,139 | 45,459 | 38,718 | 40,438 | 42,089 | 43,942 | 39,110 | 41,656 | 44,470 | 47,660 |
| *% Ch* | *5.1%* | *5.5%* | *5.1%* | *5.4%* | *4.6%* | *4.4%* | *4.1%* | *4.4%* | *5.6%* | *6.5%* | *6.8%* | *7.2%* |
| U.S. (Billions) | 10,109 | 10,657 | 11,209 | 11,826 | 10,111 | 10,665 | 11,222 | 11,832 | 10,112 | 10,670 | 11,317 | 12,045 |
| *% Ch* | *4.9%* | *5.4%* | *5.2%* | *5.5%* | *4.9%* | *5.5%* | *5.2%* | *5.4%* | *4.9%* | *5.5%* | *6.1%* | *6.4%* |
| **PERSONAL INCOME - 2000 $** | | | | | | | | | | | | |
| Idaho (Millions) | 35,430 | 36,788 | 37,947 | 39,165 | 35,409 | 36,566 | 37,467 | 38,417 | 35,442 | 36,716 | 38,120 | 39,644 |
| *% Ch* | *3.2%* | *3.8%* | *3.2%* | *3.2%* | *3.1%* | *3.3%* | *2.5%* | *2.5%* | *3.2%* | *3.6%* | *3.8%* | *4.0%* |
| U.S. (Billions) | 9,203 | 9,552 | 9,860 | 10,189 | 9,247 | 9,644 | 9,990 | 10,344 | 9,164 | 9,404 | 9,701 | 10,019 |
| *% Ch* | *2.9%* | *3.8%* | *3.2%* | *3.3%* | *3.4%* | *4.3%* | *3.6%* | *3.5%* | *2.5%* | *2.6%* | *3.2%* | *3.3%* |
| **TOTAL NONFARM EMPLOYMENT** | | | | | | | | | | | | |
| Idaho | 596,683 | 607,474 | 618,150 | 628,093 | 597,075 | 608,017 | 618,303 | 627,838 | 596,706 | 605,189 | 614,577 | 625,003 |
| *% Ch* | *1.6%* | *1.8%* | *1.8%* | *1.6%* | *1.7%* | *1.8%* | *1.7%* | *1.5%* | *1.6%* | *1.4%* | *1.6%* | *1.7%* |
| U.S. (Thousands) | 133,501 | 135,058 | 136,200 | 137,296 | 133,866 | 135,863 | 137,408 | 138,721 | 133,339 | 134,279 | 135,094 | 136,118 |
| *% Ch* | *1.7%* | *1.2%* | *0.8%* | *0.8%* | *1.9%* | *1.5%* | *1.1%* | *1.0%* | *1.6%* | *0.7%* | *0.6%* | *0.8%* |
| **GOODS-PRODUCING SECTOR** | | | | | | | | | | | | |
| Idaho | 104,605 | 103,636 | 102,899 | 102,175 | 104,997 | 104,969 | 104,926 | 104,912 | 104,729 | 102,949 | 101,432 | 100,080 |
| *% Ch* | *-0.1%* | *-0.9%* | *-0.7%* | *-0.7%* | *0.3%* | *0.0%* | *0.0%* | *0.0%* | *0.0%* | *-1.7%* | *-1.5%* | *-1.3%* |
| U.S. (Thousands) | 22,135 | 22,174 | 22,120 | 22,106 | 22,180 | 22,405 | 22,490 | 22,509 | 22,126 | 21,972 | 21,661 | 21,459 |
| *% Ch* | *1.2%* | *0.2%* | *-0.2%* | *-0.1%* | *1.4%* | *1.0%* | *0.4%* | *0.1%* | *1.1%* | *-0.7%* | *-1.4%* | *-0.9%* |
| **NONGOODS-PRODUCING SECTOR** | | | | | | | | | | | | |
| Idaho | 492,079 | 503,837 | 515,252 | 525,918 | 492,078 | 503,047 | 513,377 | 522,926 | 491,977 | 502,240 | 513,145 | 524,923 |
| *% Ch* | *2.0%* | *2.4%* | *2.3%* | *2.1%* | *2.0%* | *2.2%* | *2.1%* | *1.9%* | *2.0%* | *2.1%* | *2.2%* | *2.3%* |
| U.S. (Thousands) | 111,366 | 112,884 | 114,080 | 115,190 | 111,686 | 113,458 | 114,918 | 116,212 | 111,213 | 112,307 | 113,433 | 114,659 |
| *% Ch* | *1.8%* | *1.4%* | *1.1%* | *1.0%* | *2.0%* | *1.6%* | *1.3%* | *1.1%* | *1.6%* | *1.0%* | *1.0%* | *1.1%* |
| **SELECTED INTEREST RATES** | | | | | | | | | | | | |
| Federal Funds | *2.6%* | *3.4%* | *3.5%* | *3.9%* | *2.4%* | *3.1%* | *3.3%* | *3.4%* | *3.4%* | *5.3%* | *7.1%* | *7.4%* |
| Bank Prime | *5.6%* | *6.4%* | *6.5%* | *6.9%* | *5.4%* | *6.1%* | *6.3%* | *6.4%* | *6.4%* | *8.3%* | *10.1%* | *10.4%* |
| Existing Home Mortgage | *6.2%* | *6.6%* | *6.8%* | *7.3%* | *5.9%* | *6.2%* | *6.3%* | *6.6%* | *6.6%* | *8.0%* | *9.1%* | *9.4%* |
| **INFLATION** | | | | | | | | | | | | |
| GDP Price Deflator | *2.0%* | *1.8%* | *1.7%* | *1.9%* | *1.7%* | *1.3%* | *1.4%* | *1.7%* | *2.1%* | *2.5%* | *2.7%* | *3.1%* |
| Personal Cons Deflator | *1.9%* | *1.6%* | *1.9%* | *2.1%* | *1.7%* | *1.3%* | *1.4%* | *1.7%* | *2.4%* | *2.8%* | *2.8%* | *3.1%* |
| Consumer Price Index | *2.2%* | *1.3%* | *1.7%* | *1.9%* | *1.7%* | *0.9%* | *1.4%* | *1.6%* | *2.6%* | *2.5%* | *2.5%* | *2.8%* |

**Forecast Begins the THIRD Quarter of 2004**

## PESSIMISTIC SCENARIO

The *Pessimistic Scenario* has also been assigned 20% probability of occurrence. A significant feature of the *Pessimistic Scenario* is the re-emergence of inflation. The pickup of inflation reflects higher oil prices, a weaker dollar, two-and-one half years of accommodative monetary policy, and loose fiscal policy. In addition, higher prices are fueled by the ability of businesses to pass more of their costs to their customers. Two other factors cause prices to rise faster than in the baseline. There may actually be less spare manufacturing capacity than is currently believed, since rapid technological advances may have rendered obsolete much of the idle capacity the Federal Reserve has been including in its estimates of capacity. Global growth is hampered by the anti-growth regulatory and social policies in Europe. Consumer prices rise 2.7% in 2004, 2.6% in 2005, 2.5% in 2006, 2.5% in 2007, and 2.8% in 2008. The Federal Reserve responds to the higher inflation by quickening the pace of its tightening. By the end of 2005, the federal funds rate is at 4.5%. The federal funds rate eventually peaks at 7.5%. Between the higher interest rates and persistently high-energy prices, consumer confidence retreats and consumers rein in their discretionary spending.

The economy does not sink into a recession in this scenario, but merely fails to come as close to its potential. Real GDP is one-half percentage point lower in 2005 and 2006 than its baseline counterparts. As mentioned, inflation is higher, despite the weaker aggregate economy. Nonfarm employment grows slower than in the baseline. As a result, the unemployment rate climbs from about 5.5% in 2005 to over 6.0% in middle of 2006, where it remains until the second half of 2008.

In this *Scenario*, the outlook for Idaho employment is lower than in the *Baseline Scenario*, but the personal income forecast is stronger. Specifically, Idaho nonfarm employment advances 1.6% in 2005, 1.4% in 2006, 1.6% in 2007, and 1.7% in 2008. In this *Scenario*, Idaho goods-producing employment shrinks nearly twice as fast as in the baseline. As a result, there are about 2,100 fewer goods-producing jobs in this scenario compared to the baseline. This being the case, the nongoods-producing sector is the engine for job growth. However, it advances slower than it does in the baseline. Interestingly, Idaho nominal personal income increases faster than its baseline counterpart, due in large part to the higher predicted inflation.